

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 868 - Iowa Values Fund 2005 (LSB 1809 HW)

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Fiscal Note Version - New

Description

House File 868 does the following:

- Creates the Grow Iowa Values Fund.
- Makes changes to the composition and structure of the Economic Development Board.
- Requires the Department of Economic Development (DED) to coordinate all business-related regulatory assistance for the State.
- Requires the DED to establish an Iowa Business Resource Center Program.
- Allows for the establishment of economic development regions and economic development region revolving funds.
- Allows for a 20.0% tax credit for making a contribution to an economic development region revolving fund, caps the tax credit at \$2.0 million per fiscal year plus carry-forward, allows un-awarded tax credits to be carried forward and used in subsequent fiscal years, and allows a non-profit entity to receive a General Fund appropriation in lieu of the tax credit for its contribution.
- Allows economic development regions to apply to the DED for financial assistance, and caps the aggregate financial assistance to \$1.0 million per fiscal year.
- Establishes and defines economic enterprise areas, and allows up to ten areas to receive up to \$75,000 each per fiscal year from the Grow Iowa Values Fund.
- Requires the DED to create a business accelerator program and requires the Department to use moneys appropriated from the Grow Iowa Values Fund to fund the program.
- Requires the Department of Cultural Affairs to establish a Cultural and Entertainment District Certification Program.
- Amends Section 404A.1(1), Code of Iowa, relating to historic rehabilitation tax credits by allowing tax credits for projects in certified cultural and entertainment districts, requires an allocation of \$400,000 each fiscal year for projects costing less than \$200,000, and allows an additional \$4.0 million in tax credits each fiscal year for historic rehabilitation and cultural and entertainment tax credits.
- Requires the establishment of a Technology Commercialization Specialist in the DED and specifies the duties of the position.
- Requires the Governor to appoint a Chief Technology Officer to a four-year term to facilitate and oversee commercialization of research efforts.
- Allows the Department of Economic Development to allocate up to 10.0% of the assets in the Loan and Credit Guarantee Fund for certain microenterprises as defined in the Bill.
- Creates the High Quality Job Creation Program in the Department of Economic Development to take the place of the New Jobs and Income Program and the New Capital Investment Program, and allows for the award of tax credits under the Program on a sliding scale based on the size of the capital investment, number of jobs created, and wages and benefits paid for those jobs. The more jobs a business creates, and the greater the investment and compensation, the greater the tax incentive will be. The tax credit awarded is to be amortized equally over a five-year period, and may be carried forward and used for up to seven years or until depleted, whichever occurs first.

- Investment tax credits are capped at \$3.6 million annually for investments below \$1.0 million under the High Quality Job Creation Program. There is no cap for investments greater than \$1.0 million.
- The Bill specifies wage thresholds that must be met in order to receive tax incentives and allows the Department of Economic Development to grant waivers.
- Creates the Wage-Benefits Tax Credit Program and allows a non-retail, non-service business to apply to the Department of Revenue to claim a minimum of 5.0% to a maximum of 10.0 % tax credit of the annual wages and benefits paid for a qualified new job created by the location or expansion of the business in the State. The percentage of the award is based on the wages and benefits paid for the new job. The Bill caps the tax credit at \$10.0 million per year, to be awarded on a pro rata basis after the business maintains the new job for a 12-month period. The business is eligible to receive the same tax credit for four additional years without additional investment provided it maintains the new jobs it created for each of those years. Businesses that receive a tax credit in excess of their tax liability are allowed to receive a tax refund for the amount in excess of the liability or are allowed to carry the credits forward to be used in a subsequent year.
- Allows up to \$1.0 million in research and development tax credits for innovative renewable energy generation as specified in the Bill.
- Amends the definition of “qualified community foundation” under the Endow Iowa Program, extends the sunset date for tax credits under the Program from December 31, 2005, to December 31, 2008, allocates 10.0% of the aggregate tax credits each year for gifts of \$30,000 or under, requires 3.0% of the county endowment fund to be used by the lead philanthropic entity for administration, and specifies effective and retroactivity dates.
- Requires the Department of Economic Development to create a cost-share program for financial incentives for 30 new or converted E-85 retail outlets and 4 new or converted on-site or off-site terminal facilities, and caps the expenditure for this program at \$325,000 per year from FY 2006 through FY 2008.

Assumptions

1. The DED would coordinate business-related financial assistance using existing staff.
2. The DED would establish an Iowa Business Resource Center Program using existing staff, but would incur annual costs of approximately \$100,000 for development and distribution of information and marketing materials for placement in the resource centers starting in FY 2006.
3. The DED would incur annual costs of \$122,000 and 2.0 FTE positions for administration of the financial assistance and awarding of tax credits for economic development regions and economic enterprise areas starting in FY 2006.
4. Various economic development regions will be established in FY 2006 and will be awarded a total of \$1.0 million in financial assistance from the DED. This amount will be awarded annually starting in FY 2006. Tax credits for contributions to economic development region revolving funds will reach the capped amount of \$2.0 million per fiscal year and will be fully utilized each fiscal year starting in FY 2006.
5. Ten economic enterprise areas will be established in FY 2006 and will each receive the maximum award of \$75,000 from the DED. This amount will be awarded each fiscal year starting in FY 2006.
6. The Business Accelerator Program will be administered by the DED using existing staff and will be funded by an appropriation from the Grow Iowa Values Fund as specified in the Bill. The amount to be appropriated for this purpose is not specified and the cost cannot be determined.
7. The DED would require \$200,000 and 2.0 FTE positions annually for the Technology Commercialization Specialist and Chief Technology Officer positions.
8. The E-85 Cost-share Program will result in an annual cost of \$325,000 from FY 2006 through FY 2008. The DED will administer the Program using existing staff.

9. The Department of Cultural Affairs will administer the Cultural and Entertainment District Certification Program using existing staff.
10. House File 868 allows an additional \$4.0 million in tax credits for projects located in historic districts and cultural and entertainment districts. Under current law, \$2.4 million in tax credits may be awarded each year for just historic rehabilitation projects. The maximum of \$2.4 million has been awarded to projects each year through FY 2016. Given the strong demand for these tax credits, the additional \$4.0 million per fiscal year will be fully awarded and utilized each fiscal year. The tax credits awarded in FY 2006 will be fully utilized in FY 2007.
11. Projects with investments below \$1.0 million under the High Quality Job Creation Program will reach the capped amount of \$3.6 million in investment tax credits per fiscal year and will be fully utilized over a five-year period starting in FY 2007 ($\$3.6 \text{ million} / 5 \text{ years} = \$720,000/\text{FY}$). In addition, annual sales and use tax rebates for these projects will amount to approximately \$800,000 annually starting in FY 2007.
12. Investment tax credits currently awarded under the New Jobs and Income Program and the New Capital Investment Program (minimum investment of \$1.0 million) are utilized on average over a five-year period. The same will be true of investment tax credits awarded for projects over \$1.0 million under the High Quality Job Creation Program.
13. According to the DED, changes in Program requirements as well as the ability to grant a waiver, will result in an increase of 25.0% in the utilization of investment tax credits compared to the current estimated amount utilized under the New Jobs and Income Program and New Capital Investment Program. The current estimate of investment tax credits awarded in FY 2005 is \$45.9 million. Of this, approximately 50.0%, or \$22.9 million of the investment tax credits will be utilized, with utilization occurring over a five-year period (\$4.6 million per year). This Bill will increase utilization of investment tax credits under the High Quality Job Creation Program by \$1.1 million annually starting in FY 2007 ($\$4.6 \text{ million} \times 25.0\%$).
14. Sales and use tax rebate estimates under the current New Jobs and Income Program and the New Capital Investment Program total \$11.5 million. The proposed legislation will increase this amount by approximately 25.0% or \$2.9 million annually starting in FY 2007.
15. Tax credits issued under the Wage and Benefits Tax Credit Program will reach the capped amount of \$10.0 million and will be fully utilized each year starting in FY 2007.
16. Research and development tax credits for innovative renewable energy generation will reach the capped amount of \$1.0 million and will be fully utilized each year starting in FY 2006.
17. Approximately \$2.0 million in Endow Iowa Tax Credits will be awarded and utilized each year from FY 2006 through FY 2009. Half of the tax credits will be first utilized in FY 2006.
18. The Department of Economic Development will incur annual costs of \$325,000 and 6.0 FTE positions to administer the High Quality Job Creation Program.
19. The Department of Revenue will incur one-time costs of approximately \$125,000 in FY 2006 to design new features of the reporting information system for capturing data from applicants from the Wage and Benefits Tax Credit Program and will incur annual costs of \$20,000 and 0.25 FTE position to help with administration of the Program.

Fiscal Impact

The table below provides the General Fund costs of the tax and program policies contained in HF 868. The fiscal impact of research and development tax credits that may be awarded under the High Quality Job Creation Program cannot be determined and is therefore not included in the fiscal impact of this Bill. In addition, the cost of the Business Accelerator Program cannot be determined and is not included in the fiscal impact of this Bill.

Estimated General Fund Cost of HF 868 (In Millions)						
Tax Credit	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11 & beyond
High Quality Job Creation Program						
Projects above \$1.0 million						
Investment Tax Credit Increase		\$ 1.1	\$ 2.2	\$ 3.3	\$ 4.4	\$ 5.5
Sales and Use Tax Rebate Increase		2.9	2.9	2.9	2.9	2.9
Subtotal		4.0	5.1	6.2	7.3	8.4
Projects below \$1.0 million						
Investment Tax Credit Increase		0.7	1.4	2.1	2.8	3.5
Sales and Use Tax Rebate Increase		0.8	0.8	0.8	0.8	0.8
Subtotal		1.5	2.2	2.9	3.6	4.3
Wage and Benefits Tax Credit		10.0	10.0	10.0	10.0	10.0
R&D Tax Credits for Innovative Renewable Energy		1.0	1.0	1.0	1.0	1.0
Endow Iowa Tax Credits	1.0	2.0	2.0	1.0	-	-
Econ. Development Region Revolving Fund Tax Credit	2.0	2.0	2.0	2.0	2.0	2.0
Historic Rehab. & Cult. Ent. Tax Credit Increase		4.0	4.0	4.0	4.0	4.0
Total Fiscal Impact of Tax Credits	\$ 3.0	\$ 24.5	\$ 26.3	\$ 27.1	\$ 27.9	\$ 29.7
Program & Policy						
Iowa Business Resource Center Program	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Economic Development Regions & Enterprise Areas	1.8	1.8	1.8	1.8	1.8	1.8
Administration (Includes 2.0 FTEs)	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal	1.9	1.9	1.9	1.9	1.9	1.9
Commercialization Specialist & Tech. Officer (2.0 FTEs)	0.2	0.2	0.2	0.2	0.2	0.2
E-85 Cost Share	0.3	0.3	0.3			
Administration - High Quality Job Creation Program	0.3	0.3	0.3	0.3	0.3	0.3
(includes 6.0 FTEs)						
Administration - Wage and Benefit Tax Credit Program	0.1	0.0	0.0	0.0	0.0	0.0
(includes 0.3 FTEs)						
Total Fiscal Impact of Program & Policy	\$ 2.9	\$ 2.8	\$ 2.8	\$ 2.5	\$ 2.5	\$ 2.5
(Includes a total of 10.3 FTEs)						
Total Fiscal Impact of HF 868	\$ 5.9	\$ 27.3	\$ 29.1	\$ 29.6	\$ 30.4	\$ 32.2
(Includes a total of 10.3 FTEs)						

Sources

Department of Economic Development
Department of Revenue
Legislative Services Agency

/s/ Holly M. Lyons

April 25, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.